

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2015

Docket No. ACR2015

CHAIRMAN'S INFORMATION REQUEST NO. 2

(Issued January 8, 2016)

To clarify the basis of the Postal Service's estimates in its FY 2015 Annual Compliance Report (ACR), filed December 29, 2015,<sup>1</sup> the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than January 15, 2016.

**Special Services**

1. The following table details the Stamp Fulfillment Services (SFS) Cost, Revenue, and Cost Coverage from FY 2011 to FY 2015.

Stamp Fulfillment Services			
Year	Revenue (millions)	Cost (millions)	Cost Coverage
FY 2011	2.7	5.2	59.7% <sup>1</sup>
FY 2012	3.3	5.6	59.3% <sup>2</sup>
FY 2013	4.1	5.1	80.8% <sup>3</sup>
FY 2014	3.3	4.3	82.3% <sup>4</sup>
FY 2015 <sup>5</sup>	3.9	6.6	59.1%
Source: FY2011-2015 ACR & ACD			
<sup>1</sup> PRC-ACR2011-LR-1			
<sup>2</sup> PRC-ACR2012-LR1			
<sup>3</sup> PRC-ACR2013-LR5-Final			
<sup>4</sup> PRC-ACR2014-LR7			
<sup>5</sup> Still Under Review			

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<sup>1</sup> United States Postal Service FY 2015 Annual Compliance Report, December 29, 2015 (FY 2015 ACR).

- a. Please explain why the total costs for SFS increased by 56 percent in FY 2015. FY 2015 ACR at 53.
  - b. Please explain why the unit costs for SFS increased by 36 percent in FY 2015.
  - c. Please discuss the Postal Service's plans for improving the cost coverage of SFS in the future.
2. Please resubmit Library Reference USPS-FY15-28 with cells linked both internally and to the source documents.
3. Please resubmit Library Reference USPS-FY15-NP26 with cells linked both internally and to the source documents.
4. Please refer to Library Reference USPS-FY15-4, the Special Services Billing Determinants (Billing Determinants), and "Table 6: Special Services Volume, Revenue, and Cost by Service/Product," on page 52 of the FY 2015 ACR.
  - a. Please reconcile the Billing Determinants volume for Insurance in tab "F-3 Insurance" cell C63 of 18.1 million with the ACR volume for Insurance of 22.7 million.
  - b. Please reconcile the Billing Determinants revenue for Insurance in tab "F-3 Insurance" cell C71 of \$86.0 million with the ACR revenue for Insurance of \$89.1 million.
  - c. Please reconcile the Billing Determinants revenue for Stamped Envelopes in tab "F-9 Stamped Envelopes" cell D69 of \$14.2 million with the ACR revenue for Stamped Envelopes of \$11.2 million.
  - d. Please reconcile the Billing Determinants revenue for Caller Service in tab "F-4 PO Boxes" cell G29 of \$94.0 million with the ACR revenue for Caller Service of \$98.8 million.

- e. Please reconcile the Billing Determinants volume for Credit Card Authentication in tab "H-7 ICOA" cell B9 of 15.3 million with the ACR volume for Credit Card Authentication of 14.6 million.
- f. Please reconcile the Billing Determinants revenue for Money Orders in tab "F-5 Money Orders" cell D23 of \$158.9 million with the ACR revenue for Money Orders of \$160.5 million.
- g. Please reconcile the Billing Determinants revenue for Post Office Box Service in tab "F-4 PO Boxes" cells B29:F29 (summed) of \$302.2 million with the ACR revenue for Post Office Box Service of \$310.9 million.
- h. Please reconcile the Billing Determinants revenue for Stamp Fulfillment Services in tab "F-15 SFS" cell D14 of \$4.1 million with the ACR revenue for Stamp Fulfillment Services of \$3.9 million.

**International Mail**

- 5. Please refer to Library Reference USPS-FY15-NP2, Excel file "NSA Summary (Unified).xls," worksheet Merged ICM Data. Please confirm that column A does not contain the expected values of 1 through 12.
  - a. If confirmed, please provide a version of the file with corrected values for column A.
  - b. If not confirmed, please explain the meaning of the values in column A.
- 6. The following questions pertain to the quality of service link to terminal dues for Inbound Letter Post.
  - a. For CY 2014, please provide the final monthly, quarterly, and annual quality of service measurement results for the link to terminal dues provided to the Postal Service by the International Post Corporation (IPC) or its contractor.

- b. For CY 2015, please provide the preliminary monthly and quarterly quality of service measurement results for the link to terminal dues provided to the Postal Service by the IPC or its contractor.
  - c. For any month during CY 2015 for which the preliminary monthly quality of service measurement results for the link to terminal dues have not yet been provided to the Postal Service, please provide such preliminary monthly quality of service measurement results as they become available from the IPC or its contractor.
  - d. If the Postal Service did not meet the Universal Postal Union (UPU) quality of service measurement target of 88 percent during the periods referenced in questions 1a., 1b., and 1c., please provide the amount of forfeited revenue for each such period.
- 7. The following requests concern inbound Express Mail Service (EMS).
  - a. Please provide the EMS Cooperative quarterly report card for CY 2014, quarter 4.
  - b. Please provide the EMS Cooperative annual report card for CY 2014.
  - c. Please provide the available EMS Cooperative quarterly report cards for CY 2015.
  - d. For each quarter during CY 2015 for which the EMS Cooperative quarterly report card is not yet available, please provide the CY 2015 monthly and quarterly report cards as they become available.
- 8. The following requests concern inbound EMS and the Kahala Posts Group (KPG).
  - a. Please identify the foreign postal operators that were member posts of the KPG during FY 2015, and specify which of those member posts entered inbound EMS into the U.S.

- b. Please confirm that during FY 2015, the EMS Cooperative Pay-for-Performance Plan was applicable to all KPG members identified in 8.a who entered inbound EMS into the U.S. If not confirmed, please identify KPG member posts who entered inbound EMS that were not subject to the EMS Cooperative Pay-for-Performance Plan and explain why the EMS Cooperative Pay-for-Performance Plan was not applicable to those KPG member posts.
  - c. The KPG Strategic Services Agreement describes the conditions for date-certain delivery performance in which late delivery results in penalties in the form of a postage refund. Please provide all fiscal year, calendar year, and/or quarterly reports that measure the service performance of inbound EMS from KPG member posts with respect to late deliveries, penalties, and any other service performance metrics, including the number of late deliveries for which a postage refund was made and the total amount of such refunds in FY 2015 for each KPG member post.
  - d. Please confirm that in Library Reference USPS-FY15-NP2, Excel file "Reports (Unified).xls," tab "ICRA Database," column I represents inbound EMS from KPG member posts. If not confirmed, please explain what this column represents.
  - e. Please confirm that in Library Reference USPS-FY15-NP2, Excel file "Reports (Unified).xls," tab "A Pages Summary," cell H60, the value in the referenced cell represents the expenses allocated to KPG membership. If not confirmed, please explain the source of the costs reported in cell H60.
  - f. Please clarify the status of the Postal Service's participation in the KPG.
9. Inbound Air Parcel Post (at non-UPU rates) consists of agreements with Royal Mail and European postal operators executed pursuant to Annex B2 of the e-Parcel Group (EPG) agreement, which predates the Postal Accountability and

Enhancement Act. The Postal Service has established calendar quarter on-time performance goals to achieve improved performance for EPG parcels.<sup>2</sup>

- a. Please provide the on-time performance goals and the on-time performance achieved for each available calendar quarter of 2015 and, for comparison purposes, each calendar quarter of 2014. If information concerning on-time performance achieved for any calendar quarter of 2015 (or 2014) is not currently available, please provide such information as it becomes available.
  - b. For FY 2015, please explain what caused the Postal Service to make penalty payments, and whether such payments were made pursuant to provisions of bilateral agreements executed pursuant to Annex B2 of the EPG agreement, or any other bilateral or multilateral agreements.
  - c. For FY 2015, please provide the total amount of penalty payments, and the related trigger events (e.g., late delivery, late transmissions, missing delivery information) that caused the penalty payments.
10. The following request concerns International Money Transfer Service (IMTS).
- a. For the IMTS—Outbound and Inbound products during FY 2015, please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage.
  - b. Please explain the substantial decreases in IMTS—Inbound product revenue from FY 2014 to FY 2015.

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<sup>2</sup> See Docket No. ACR2013, Responses of the United States Postal Service to Questions 1-3.b, 4-5, and 7-12 of Chairman's Information Request No. 5, February 11, 2014, question 3a.

- c. Please provide an updated FY 2015 version of Docket No. ACR2014, Library Reference USPS-FY14-NP43, June 30, 2015, as further modified in Docket No. RM2015-13.<sup>3</sup>
- 11. The following request concerns market dominant Global Direct Entry with Foreign Postal Administrations and an authorization arrangement that allows a handling charge for certain mail.<sup>4</sup>
  - a. In addition to Deutsche Post, please identify the foreign postal operators that entered foreign-origin, inbound direct entry items pursuant to an authorization arrangement in FY 2015.
  - b. Refer to Library Reference USPS-FY15-NP2, Excel file "Reports (Unified).xls," worksheet tab A Pages (md), Table A-2. Please explain why no results are provided in Global Direct Entry with Foreign Postal Administrations shown in Table A-2.
- 12. The following requests concern the system of bonus payments and required service features administered by the UPU for Inbound Air and Surface Parcel Post (at UPU rates).
  - a. For CY 2014 and CY 2015, please provide the required service features for bonus payments under the UPU inward land rate bonus system and the corresponding percentages.
  - b. For CY 2014, please provide the results of the Postal Service's final annual measurements for purposes of the inward land rate bonus.

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<sup>3</sup> See Docket No. RM2015-13, Order No. 2825, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Five), November 19, 2015.

<sup>4</sup> See Docket No. R2013-1, United States Postal Service Notice of Market-Dominant Price Adjustment, October 11, 2012, in which the Postal Service added a \$0.01 handling charge for foreign-origin, inbound direct entry First-Class Mail Machinable Single-Piece Letters, Single-Piece Postcards, Single-Piece Flats, and Single-Piece Parcels tendered by foreign postal operators, subject to the terms of an authorization arrangement. The handling charge took effect January 27, 2013, and remained in effect during FY 2015.

- c. For CY 2015, please provide the results of the Postal Service's most recent calendar year measurements for purposes of the inward land rate bonus.
- d. If the Postal Service did not meet the service feature requirements for a UPU inward land rate bonus, please provide the amount of forfeited revenue for CY 2014 and for CY2015 available to date.

**Package Services**

- 13. The Postal Service states that the Media Mail/Library Mail cost coverage declined 17.47 percentage points to 76.23 percent due to a "large change in certain cost factors, such as the density factor." FY 2015 ACR at 47.
  - a. Please provide a list of all cost factors that changed to contribute to the decline in Media Mail/Library Mail cost coverage
  - b. Please provide an explanation for why each cost factor changed, and how the change in each cost factor contributed to a decline in Media Mail/Library Mail cost coverage.

**Periodicals**

- 14. The following question pertains to revenues reported for Outside County Periodicals mail. The Outside County Periodicals mail revenue reported in Library Reference USPS-FY15-42, Excel file "Fy2015\_RPWsummaryreport\_public.xlsx," worksheet "FY 2015 Public," cell "D46" is \$1,515,354,000. The Outside County Periodicals mail revenue reported in Library Reference USPS-FY15-4, Excel file "FY15 Periodicals BDs.xlsx," worksheet "Total FY 2015," cell "L195" is \$1,515,342,621. Please reconcile the discrepancy between Outside County Periodicals mail revenue reported in Library References USPS-FY15-42 and USPS-FY15-4.



## **Service Performance Results**

15. In the FY 2014 Annual Compliance Determination (ACD), the Commission directed the Postal Service to “provide an explanation...for why efforts to improve service performance results for First-Class Mail Flats have been ineffective [since FY 2011].” FY 2014 ACD at 104.
  - a. Please discuss these efforts and the reasons why they have not resulted in expected improvements in service performance results for First-Class Mail Flats.
  - b. Please describe the challenges the Postal Service faces in improving service performance results for First-Class Mail Flats and how the Postal Service is addressing those challenges.
16. In the FY 2014 ACD, the Commission directed the Postal Service to “explain in the FY 2015 ACR why efforts to improve results [for Standard Mail Carrier Route and Flats] have been ineffective.” *Id.* at 109.
  - a. Please discuss these efforts and the reasons why they have not resulted in expected improvements in service performance results for Standard Mail Carrier Route and Flats.
  - b. Please describe the challenges the Postal Service faces in improving service performance results for Standard Mail Carrier Route and Flats and how the Postal Service is addressing those challenges.
17. In the FY 2014 ACD, the Commission directed the Postal Service to “explain in its FY 2015 ACR why efforts to improve results [for Periodicals] have been ineffective.” *Id.* at 112.
  - a. Please discuss these efforts and the reasons why they have not resulted in expected improvements in service performance results for Periodicals.

- b. Please describe the challenges the Postal Service faces in improving service performance results for Periodicals and how the Postal Service is addressing those challenges.

### **First-Class Mail**

- 18. The Postal Service states that “[d]uring Postal Quarter 2, the disruption caused by realigning staffing and educating employees in new jobs resulted in slippage of performance.” Library Reference USPS-FY15-29 at 8.
  - a. Please describe the staff realignment and employee education activities referred to in this library reference that led to the decrease in service performance results.
  - b. Did these activities occur in all 67 districts? If not, please list the districts where these activities occurred.
  - c. Did these activities occur during all quarters of FY 2015? If not, please list the quarters in which these activities occurred (disaggregated by district).
  - d. Please provide any data that demonstrate a link between staff realignment and employee education activities and the decrease in service performance results.
  - e. Please explain what actions the Postal Service is taking to mitigate the effect of staff realignment and employee education on service performance results.
- 19. The Postal Service also states that, “network constraints contributed to the decline in service performance.” Library Reference USPS-FY15-29 at 8.
  - a. Please describe the type(s) of network constraints referred to above and explain how each of them contributed to the decline in service performance.

- b. Please provide any data that demonstrate how network constraints decreased service performance results.
- c. Please explain what actions the Postal Service is taking to mitigate the effect of network constraints on service performance results.

20. The Postal Service states that

The Postal Service plans to increase emphasis on the processing of First-Class Mail Flats. This will include standardizing the handling of special sort assignment on the flat sorting equipment.

Library Reference USPS-FY15-29 at 9.

- a. Please explain what is meant by "special sort assignments."
- b. In FY 2015, what percentage of First-Class Mail Flats volume was handled by "special sort assignments?"
- c. What is the current process for handling "special sort assignments?"
- d. Please explain in detail how standardizing the handling of "special sort assignments" on flat sorting equipment will increase service performance results.

**Standard Mail**

21. The Postal Service states that "[d]uring Postal Quarter 2, the disruption caused by realigning staffing and educating employees in new jobs resulted in slippage of performance." Library Reference USPS-FY15-29 at 13. Please describe the types of staff realignment and employee education activities referred to in this library reference that led to the decrease in service performance results.

- a. Did these activities occur in all 67 districts? If not, please list the districts where these activities occurred.
- b. Did these activities occur during all quarters of FY 2015? If not, please list the quarters in which these activities occurred (disaggregated by district).

- c. Please provide any data that demonstrate a link between the staff realignment and employee education activities and the decrease in service performance results.

22. The Postal Service states that

[it] plans to continue focusing on the improvement of Standard Flat processing by reducing the WIP cycle time by decreasing the time between bundle and next handling processing. This will be done by advancing the processing of Standard Flats to day zero (day of acceptance).

Library Reference USPS-FY15-29 at 14.

- a. Please explain in detail how “advancing the processing of Standard Flats to day zero” will decrease WIP cycle time.
  - b. What is the average length of time between bundle and next handling process?
  - c. What is the length of time between bundle and next handling process that needs to be achieved in order to meet service performance targets?
23. The Postal Service states that it “will also utilize the increased depth of distribution that the additional separations of the Automated Parcel and Bundle Sorter enable to reduce re-handling and manual sortation and advance the product to its final sortation.” Library Reference USPS-FY15-29 at 14. Please provide the percentage of Standard Mail Flats processed on the Automated Parcel and Bundle Sorter from FY 2011 through FY 2015, disaggregated by quarter.

**Periodicals**

24. The Postal Service states that “[t]he increase in WIP resulted in an increase in the time between bundle and next handling processing.” Library Reference USPS-FY15-29 at 16.
- a. Please describe the reason(s) WIP increased in FY 2015.

25. The Postal Service states that “[t]he slight decrease in performance occurred while [it] was aligning efforts to address other product lines that were experiencing greater declines.” Library Reference USPS-FY15-29 at 16. Please describe these efforts (disaggregated by quarter and district).
26. The Postal Service states that it “is using the WIP cycle time to identify locations and operations where the time between arrival and bundle-to-piece distribution is outside of control...” Library Reference USPS-FY15-29 at 17.
  - a. Please define the phrase ‘outside of control.’
  - b. Please list the locations and operations that were identified in this process, aggregated by district and quarter.

By the Acting Chairman.

Robert G. Taub